

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6989

BILL NUMBER: SB 340

NOTE PREPARED: Jan 10, 2006

BILL AMENDED:

SUBJECT: Salary and PERF Protection for State Employees.

FIRST AUTHOR: Sen. Wyss

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: *Demotion:* The bill provides that the state's salary and wage schedules must provide that an appointing authority is not required to reduce the salary of an employee who is demoted, unless the appointing authority determines that the salary reduction is warranted for disciplinary reasons or other good cause.

PERF Withdrawal: The bill establishes a process to withdraw state employees from the Public Employees' Retirement Fund and allow certain state employees to retire when the employees' particular departmental, occupational, or other classifications are terminated from state employment as a result of: (1) a lease or other transfer of state property to a nongovernmental entity; or (2) a contractual arrangement with a nongovernmental entity to perform certain state functions.

Effective Date: December 31, 2005 (retroactive).

Explanation of State Expenditures: *PERF Withdrawal:* The ultimate impact of this bill will depend on administrative actions in terms of leasing or transferring state property to a nongovernmental entity or contracting with a nongovernmental entity to perform state functions and the number and specific situations of the employees involved. The annual cost of allowing early withdrawal from the PERF fund for a group of 210 employees described according to the following situations is estimated at approximately \$62,000.

The funds affected are the state General Fund (55%), or \$34,100, and various dedicated funds (45%), or \$27,900. The percentage split represents the amount each fund contributes to the state budget.

Background Information: There are three cases of potential fiscal impact.

(1) The bill permits any current state PERF member with less than 10 years of service whose employment is terminated because of a lease or other transfer of state property to a nongovernmental entity, or a contractual arrangement with a nongovernmental entity, to become fully vested in a pension benefit. The actuarial cost for this provision is minor since such PERF members are usually young with low salaries, and such members are likely to request a refund of their annuity savings account, thereby forfeiting their accrued pension benefit. The estimated fiscal impact for 100 such PERF members is approximately \$65,800 with a 30-year amortization of \$5,100.

(2) The bill permits any current state PERF member who is at least 65 and whose employment is terminated because of a lease or other transfer of state property to a nongovernmental entity, or a contractual arrangement with a nongovernmental entity, to be able to retire from PERF even if the member has less than 10 years of service. The only fiscal impact that would potentially occur would be for those members who would have, under normal circumstances, terminated employment prior to earning 10 years of service. The estimated fiscal impact for 10 such members (there are probably few who would fall in this category) to be about \$22,500 with a 30-year amortization of \$1,700.

(3) The bill also permits any current state PERF member who is within 24 months of early or normal retirement and whose employment is terminated because of a lease or other transfer of state property to a nongovernmental entity, or a contractual arrangement with a nongovernmental entity, to have the remaining service purchased by the state to permit the member to qualify for immediate retirement. This provision would apply to all eligible members. The estimated fiscal impact for 100 such members is approximately \$721,000 with a 30-year amortization of \$55,500.

It should be noted that besides the actuarial cost, there may also be additional administrative costs. These administrative costs would arise from the computation of benefits and the confirmation of credited service that may not have needed to be done under normal circumstances. Potential administrative costs are indeterminable at this time.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of Personnel; Public Employees' Retirement Fund.

Local Agencies Affected:

Information Sources: Doug Todd of McCready & Keane, Inc., actuaries for PERF, 317 576-1508.

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